

CITY OF STEPHENSON
REPORT ON FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
YEAR ENDED JUNE 30, 2005

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF STEPHENSON	County MENOMINEE
Audit Date JUNE 30, 2005	Opinion Date JULY 28, 2005	Date Accountant Report Submitted to State: JULY 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

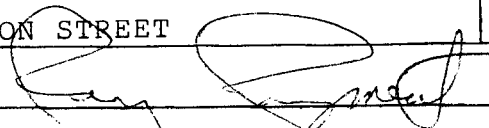
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) RAY PAYMENT, CPA			
Street Address 1217 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 			

CONTENTS

	<u>Page</u>
Independent Auditor's Report	3-4
<u>AUDITED FINANCIAL STATEMENTS</u>	
Combined Balance Sheet - All Fund Types	5
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds	7
Statement of Revenues, Expenditures and Changes in Fund Balance - Utility Fund	8
Statement of Cash Flows - Utility Fund	9
Notes to Financial Statements	10-15
<u>SUPPLEMENTARY FINANCIAL DATA</u>	
Combining Balance Sheet - Utility Funds	16
Combining Balance Sheet - Special Revenue Funds	17
Comparative Balance Sheet - Utility Funds	18
Comparative Income Statements - Utility Funds	19
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - All Special Revenue Funds	20
Statement of Changes in Assets and Liabilities - All Fiduciary Fund Types	21
Statement of Changes In General Fixed Assets - General Fixed Assets Account Group	22
Schedule of Expenditures - Budget and Actual - General Fund	23-24
Schedule of Expenditures - Utility Fund	25-26
Assessed Valuation Tax Rates and Tax Levies	27
Reports on Internal Accounting Control and Compliance	28-29

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July 28, 2005

INDEPENDENT AUDITOR'S REPORT

Honorable City Council
City of Stephenson
Stephenson, Michigan

I have audited the combined financial statements of the City of Stephenson as of June 30, 2005, and the related statements of revenues and expenditures and fund balances for the year then ended. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these financial statements based on my audit.


I conducted my audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Management has not presented government-wide statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the City's governmental activities and business-type activities are not reasonably determinable.

In my opinion, except for the effects of the omission of the government-wide statements, as discussed above, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the various funds of the City of Stephenson at June 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

July 28, 2005

The financial statements referred to in the foregoing opinion are identified in the contents of this report. My examination was made primarily for the purpose of rendering an opinion on these basic financial statements, taken as a whole. The supplementary financial data identified in the contents, although not considered necessary for a fair presentation of the assets and liabilities of the various funds of the City of Stephenson at June 30, 2005 is presented primarily for supplement analysis purposes. This additional information has been subjected to the audit procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Ray L. Payment", is written over the printed name.

Ray L. Payment
Certified Public Accountant

CITY OF STEPHENSON
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2005

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 318 262	\$ 94 200
Accounts receivable	266	1 755
TOTAL CURRENT ASSETS	<u>318 528</u>	<u>95 955</u>
PROPERTY, PLANT & EQUIPMENT (Note 1):		
Land	-	-
Plant and equipment	-	-
Total	-	-
Less accumulated depreciation	-	-
NET Property, Plant and Equipment	-	-
OTHER ASSETS:		
Restricted Assets - Funded Equipment Cash	46 923	-
- Metro Act Cash	445	-
Bond Reserve Account	-	-
TOTAL ASSETS	<u>\$ 365 896</u>	<u>\$ 95 955</u>
<u>LIABILITIES AND FUND EQUITY:</u>		
LIABILITIES:		
Accounts payable	\$ 7 441	\$ 19 542
Payroll taxes withheld & due govt. units	-	-
Customer deposits	-	-
Bonds payable	-	-
TOTAL LIABILITIES	<u>7 441</u>	<u>19 542</u>
FUND EQUITY:		
INVESTMENT IN GENERAL FIXED ASSETS	-	-
FUND BALANCES AND RETAINED EARNINGS - UNRESTRICTED	311 087	76 413
FUND BALANCES AND RETAINED EARNINGS - RESTRICTED	<u>47 368</u>	-
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 365 896</u>	<u>\$ 95 955</u>

See notes to financial statements.

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Groups</u>
<u>Utility Funds</u>	<u>Trust & Agency</u>	<u>General Fixed Assets</u>
\$ 838 801	\$ 8 415	\$ -
62 696	-	-
<u>901 497</u>	<u>8 415</u>	<u>-</u>
12 600	-	-
2 763 129	-	838 917
2 775 729	-	838 917
(728 083)	-	-
<u>2 047 646</u>	<u>-</u>	<u>838 917</u>
260 112	-	-
-	-	-
<u>42 780</u>	<u>-</u>	<u>-</u>
\$ 3 252 035	\$ 8 415	\$ 838 917
<u>39 927</u>	<u>-</u>	<u>-</u>
-	315	-
-	8 100	-
<u>863 000</u>	<u>-</u>	<u>-</u>
<u>902 927</u>	<u>8 415</u>	<u>-</u>
-	-	838 917
2 046 216	-	-
<u>302 892</u>	<u>-</u>	<u>-</u>
\$ 3 252 035	\$ 8 415	\$ 838 917
<u>3 252 035</u>	<u>8 415</u>	<u>838 917</u>

CITY OF STEPHENSON
COMBINED STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue Funds	Proprietary Fund Type
REVENUES:			
Property taxes - Current	\$ 50 705	\$ -	\$ -
- Collection Fees	4 601	-	-
- Delinquent	560	-	-
State shared taxes	76 180	-	-
State grants - Motor Vehicle Highway Fund	-	96 068	-
Liquor law enforcement	-	587	-
Interest	6 331	-	18 025
Parking and City fines	488	-	-
Other reimbursements & misc.	5 502	1 177	32 744
Services rendered and rents	22 464	-	970
Utilities collections	-	-	683 888
Hannahville grant	4 100	-	-
TOTAL REVENUES	<u>170 931</u>	<u>97 832</u>	<u>735 627</u>
EXPENDITURES: (DETAIL PAGES 19 & 20)			
City council	20 791	-	-
Mayor	1 172	-	-
Elections	1 292	-	-
General services	41 870	-	-
Fire department	12 345	-	-
Sanitation	7 660	-	-
Parks	29 837	-	-
Highways and streets	-	137 559	-
Law enforcement	10 628	587	-
Utility expenses	-	-	797 736
Services to other funds	1 285	-	-
Administrative	13 916	-	-
TOTAL EXPENDITURES	<u>140 796</u>	<u>138 146</u>	<u>797 736</u>
EXCESS REVENUES (EXPENDITURES)	<u>30 135</u>	<u>(40 314)</u>	<u>(62 109)</u>
OTHER FINANCING SOURCES (USES):			
Incoming transfers	-	64 295	-
Outgoing transfers	<u>(64 295)</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(64 295)</u>	<u>64 295</u>	<u>-</u>
EXCESS REVENUES AND OTHER SOURCES (EXPENDITURES & OTHER USES)	<u>(34 160)</u>	<u>23 981</u>	<u>(62 109)</u>
FUND BALANCES, beginning of year	<u>392 615</u>	<u>52 432</u>	<u>2 411 217</u>
FUND BALANCES, end of year	<u>\$ 358 455</u>	<u>\$ 76 413</u>	<u>\$2 349 108</u>

See notes to financial statements.

CITY OF STEPHENSON
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005

	General Fund		Variance
	Actual Amount	Budget Amount	Favorable (Unfavorable)
CASH REVENUES:			
Property taxes			
- Current and in-lieu	\$ 50 705	\$ 50 300	\$ 405
- Collection fees	4 601	3 000	1 601
- Delinquent	560	-	560
State shared taxes	76 180	76 103	77
State grants - Motor Vehicle Highway Fund	-	-	-
Liquor law enforcement	-	-	-
Interest	6 331	4 200	2 131
Fines	488	500	(12)
Services rendered and rents	5 502	50	5 452
Other reimbursements & misc.	22 464	15 390	7 074
Hannahville grant	4 100	-	4 100
TOTAL REVENUES	170 931	149 543	21 388
EXPENDITURES:			
City council	20 791	23 660	2 869
Mayor	1 172	1 500	328
Elections	1 292	1 375	83
General services	41 870	47 283	5 413
Fire department	12 345	12 990	645
Sanitation	7 660	8 207	547
Parks	29 837	50 690	20 853
Highways and streets	-	-	-
Law enforcement	10 628	22 239	11 611
Services from other funds	1 285	1 285	-
Administrative	13 916	11 181	(2 735)
TOTAL EXPENDITURES	140 796	180 410	39 614
EXCESS REVENUES (EXPENDITURES)	30 135	(30 867)	61 002
OTHER FINANCING SOURCES (USES):			
Incoming transfers	-	-	-
Outgoing transfers	(64 295)	(64 295)	-
TOTAL OTHER FINANCING SOURCES (USES)	(64 295)	(64 295)	-
EXCESS REVENUE AND OTHER SOURCES (EXPENDITURES & OTHER USES)	(34 160)	(95 162)	61 002
FUND BALANCES, beginning of year	392 615	392 615	-
FUND BALANCES, end of year	\$ 358 455	\$ 297 453	\$ 61 002

See notes to financial statements.

<u>Special Revenue Funds</u>		
<u>Actual Amount</u>	<u>Budget Amount</u>	<u>Variance Favorable (Unfavorable)</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
96 068	90 400	5 668
587	587	-
-	-	-
-	-	-
-	-	-
1 177	-	1 177
-	-	-
<u>97 832</u>	<u>90 987</u>	<u>6 845</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
137 559	154 695	17 136
587	587	-
-	-	-
-	-	-
<u>138 146</u>	<u>155 282</u>	<u>17 136</u>
(40 314)	(64 295)	23 981
64 295	64 295	-
-	-	-
<u>64 295</u>	<u>64 295</u>	<u>-</u>
23 981	-	23 981
<u>52 432</u>	<u>52 432</u>	<u>-</u>
\$ 76 413	\$ 52 432	\$ 23 981

CITY OF STEPHENSON
 STATEMENTS OF REVENUES AND EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 UTILITY FUND
 YEAR ENDED JUNE 30, 2005

	Electric Fund	Sewer Fund	Water Fund
OPERATING REVENUES:			
Charges for services:			
Electric and sales tax	\$ 427 081	\$ -	\$ -
Sewer	-	156 756	-
Water	-	-	100 051
Service charges and rents	386	250	334
Reimbursements and refunds	20 548	7 880	4 316
TOTAL OPERATING REVENUES	448 015	164 886	104 701
OPERATING EXPENDITURES:			
(Detail of Pages 25-26)			
Electric	484 903	-	-
Sewer - collection	-	15 448	-
Sewer - operating	-	174 101	-
Water	-	-	84 201
TOTAL OPERATING EXPENDITURES	484 903	189 549	84 201
OPERATING INCOME (LOSS)	(36 888)	(24 663)	20 500
NONOPERATING REVENUES (EXPENDITURES):			
Interest income	13 285	821	3 919
Interest on Bonds	-	(16 763)	(22 320)
EXCESS OF REVENUES OVER EXPENDITURES	\$ (23 603)	\$ (40 605)	\$ 2 099
RETAINED EARNINGS, at beginning of period	1 263 275	854 876	293 066
RETAINED EARNINGS, at end of period	\$ 1 239 672	\$ 814 271	\$ 295 165

See notes to financial statements.

CITY OF STEPHENSON
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2005

	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (23 603)	\$ (40 605)	\$ 2 099
Non-cash expenses included in net income:			
Depreciation	22 131	40 707	15 723
Increase in accounts payable- (receivable)	<u>(5 996)</u>	<u>225</u>	<u>(386)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(7 468)</u>	<u>327</u>	<u>17 436</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in property, plant and equipment - (net)	(4 744)	-	(1 490)
Increase (decrease) in bonds issued	<u>-</u>	<u>(5 000)</u>	<u>(6 000)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(4 744)</u>	<u>(5 000)</u>	<u>(7 490)</u>
NET INCREASE (DECREASE) IN CASH	(12 212)	(4 673)	9 946
CASH, BEGINNING OF YEAR	<u>845 241</u>	<u>99 278</u>	<u>204 113</u>
CASH, END OF YEAR	<u>\$ 833 029</u>	<u>\$ 94 605</u>	<u>\$ 214 059</u>

See notes to financial statements.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

All of the funds of the City are accounted for using the modified accrual basis, wherein revenues are recognized when they become susceptible to accrual (i.e. when they become both measurable and available to finance expenditures of the current period) and expenditures are generally recognized when the related fund liability is incurred when certain exceptions such as interest on long-term debt which is generally recognized when due.

Fund Accounting

The major focus of a governmental accounting and reporting system is to show adherence to applicable legal provisions, and to determine fairly and with full disclosure the financial position and results of financial operations of each accounting entity within a governmental unit.

In accordance with the above criteria, the accounts of the City of Stephenson are organized on a basis of individual funds or account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate, self-balancing set of accounts that comprise its assets, liabilities, equities, revenues, and expenditures or expenses as appropriate. Governmental resources are allocated to an accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statement in this report, into fund categories as follows:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Enterprise Fund - Enterprise Funds report activities that are financed primarily by user charges. The City's Utility Fund is an Enterprise Fund.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

General Fixed Assets (Continued)

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held in trust or as an agent for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

General Fixed Assets Account Group

This account group presents the fixed assets of the City. General Fixed Assets purchased are recorded as expenditures in their respective funds. Such assets are capitalized at cost in the general fixed asset group.

PROPERTY, PLANT, AND EQUIPMENT - UTILITY FUNDS

Fixed assets consisting of property plant and equipment are carried at cost. Depreciation is calculated over the estimated useful life of the fixed assets using the straight-line method. The City has elected to decrease contributions in aide of construction by the corresponding purchase of assets purchased by contributed capital.

Budgets and Budgetary Accounting

As set forth in the City Charter, the City adopts annual budgets for the General Fund and Special Revenue Funds. The annual budgets are prepared in accordance with the basis of accounting utilized by those funds. The City Council is authorized to transfer budgeted amounts within and among departments. Subsequent to year-end, the Council adopts an amended budget approving any transfers among departments or additional expenditures. The amended budgets are presented on page 7. All appropriations lapse at fiscal year-end.

NOTE 2- DESCRIPTION OF RECORDING ENTITY

The City of Stephenson is located in Menominee County and provides services to its residents in many areas including community enrichment and development, and human services. In accordance with the provisions of NCGA Statement 3, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by the NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the City. Educational services are provided through the Stephenson Area School System which is a separate governmental entity and, therefore, not presented in the financial statements included herein.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - STATEMENT OF REVENUES AND EXPENDITURES - BUDGET
AND ACTUAL - GENERAL FUND

The above supplemental statement is not required in these statements because the combined statement on page 7 is detailed to the required revenue and activity level as shown in the Uniform Accounting Procedures Manual for Local Units of Government in Michigan.

NOTE 4 - CASH AND INTEREST-BEARING DEPOSITS

Deposits are carried at cost. Deposits of the City are in one bank in the name of the City of Stephenson. Michigan complied Laws, Section 124.91, authorizes the City Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreement; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rates by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The City's deposits are in accordance with statutory authority, and they have approved an investment and cash policy.

Governmental Accounting Standards Board (GASB) Statement No. 3 Risk Disclosure for the City's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured	\$ 700 000
Non-insured	<u>909 938</u>
TOTAL DEPOSITS	<u>\$ 1 609 938</u>

NOTE 5 - PROPERTY TAX LEVY

The City levies taxes on a general law basis. The taxes included in these financial statements are the 2004 levy and are billed on a once per year basis. See schedules on page 22 for levy breakdown and millage rates. All unpaid taxes become delinquent March 1, of the following year. The City bills and collects its own property taxes. City property tax revenues are recognized when collected on the cash basis. All real property taxes are turned over to the County when delinquent and personal property taxes are collected and distributed by

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PROPERTY TAX LEVY (Continued)

the City. The County uses a revolving tax fund and reimburses the City yearly for any delinquent real property taxes.

A statewide referendum commonly known as Proposal A, took effect in 1994. Under this law, a new term, "Taxable Value", has been created. Proposal A limits annual increases in taxable value of property to the lesser of 5% or the rate of inflation. Initial taxable values, for 1994, were equal to state equalized values in that year.

NOTE 6 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 7 - CASH FLOW INFORMATION

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases insurance coverage through a carrier. This plan purchases reinsurance for all risks. The City's expense is to pay only the annual premium. In addition, the City purchases worker's compensation insurance through the Accident Fund of Michigan.

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - SEWER REVENUE BONDS PAYABLE

The sewer revenue bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2005 the required amount in this fund was \$21,860 and \$21,860 was on deposit. The original issue amount was \$400,000 for Sewer Fund construction.

BOND ISSUE NO. 1

4 1/2% SEWER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2005</u>
9/1/2003 thru 9/1/2006	\$ 5 000	\$ 10 000
9/1/2007 thru 9/1/2010	6 000	24 000
9/1/2011 thru 9/1/2013	7 000	21 000
9/1/2014 thru 9/1/2016	8 000	24 000
9/1/2017 thru 9/1/2019	9 000	27 000
9/1/2020 thru 9/1/2021	10 000	20 000
9/1/2022 thru 9/1/2023	11 000	22 000
9/1/2024 thru 9/1/2025	12 000	24 000
9/1/2026 thru 9/1/2027	13 000	26 000
9/1/2028	14 000	14 000
9/1/2029 thru 9/1/2030	15 000	30 000
9/1/2031	16 000	16 000
9/1/2032 thru 9/1/2033	17 000	34 000
9/1/2034	18 000	18 000
9/1/2035	19 000	19 000
9/1/2036	20 000	20 000
9/1/2037	21 000	21 000
Total Bond Issue No. 1		<u>\$ 370 000</u>

CITY OF STEPHENSON
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - WATER BONDS PAYABLE

The water bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2005 the required amount in this fund was \$20,920 and \$20,920 was on deposit. The original issue amount was \$572,000 for Water Fund construction.

WATER BOND ISSUE NO. 1

4 1/2% WATER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2005</u>
9/1/2005 thru 9/1/2007	\$ 7 000	\$ 21 000
9/1/2008 thru 9/1/2010	8 000	24 000
9/1/2011 thru 9/1/2012	9 000	18 000
9/1/2013 thru 9/1/2015	10 000	30 000
9/1/2016 thru 9/1/2017	11 000	22 000
9/1/2018 thru 9/1/2019	12 000	24 000
9/1/2020 thru 9/1/2021	13 000	26 000
9/1/2022	14 000	14 000
9/1/2023 thru 9/1/2024	15 000	30 000
9/1/2025	16 000	16 000
9/1/2026 thru 9/1/2027	17 000	34 000
9/1/2028 thru 9/1/2029	19 000	38 000
9/1/2030	20 000	20 000
9/1/2031	21 000	21 000
9/1/2032	22 000	22 000
9/1/2033	23 000	23 000
9/1/2034	24 000	24 000
9/1/2035	25 000	25 000
9/1/2036	26 000	26 000
9/1/2037	27 000	27 000
9/1/2038 thru 9/1/2039	29 000	8 000
Total		<u>\$ 493 000</u>

CITY OF STEPHENSON
COMBINED BALANCE SHEET - UTILITY FUNDS
JUNE 30, 2005

	Electric Fund	Sewer Fund	Water Fund
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 638 038	\$ 18 997	\$ 181 766
Accounts receivable	38 761	14 820	9 115
TOTAL CURRENT ASSETS	676 799	33 817	190 881
PROPERTY, PLANT & EQUIPMENT:			
Land	11 800	800	-
Plant and equipment	537 290	1 570 480	655 359
Total	549 090	1 571 280	655 359
Less accumulated depreciation	(154 627)	(485 382)	(88 074)
Net Property, Plant & Equipment	394 463	1 085 898	567 285
RESTRICTED ASSETS:			
Funded equipment	194 991	53 748	11 373
Bond and interest reserve accounts	-	21 860	20 920
TOTAL RESTRICTED ASSETS	194 991	75 608	32 293
TOTAL ASSETS	\$1 266 253	\$1 195 323	\$ 790 459
<u>LIABILITIES</u>			
Accounts payable	\$ 26 581	\$ 11 052	\$ 2 294
Bonds payable	-	370 000	493 000
TOTAL LIABILITIES	26 581	381 052	495 294
<u>RETAINED EARNINGS</u>			
RETAINED EARNINGS - UNRESTRICTED	\$1 044 681	\$ 738 663	\$ 262 872
RETAINED EARNINGS - RESTRICTED	194 991	75 608	32 293
TOTAL RETAINED EARNINGS	1 239 672	814 271	295 165
TOTAL LIABILITIES AND RETAINED EARNINGS	\$1 266 253	\$1 195 323	\$ 790 459

CITY OF STEPHENSON
COMBINED BALANCE SHEET - SPECIAL REVENUE FUNDS
JUNE 30, 2005

	Major Street Fund	Local Street Fund	Liquor Fund
<u>ASSETS:</u>			
CASH	\$ 88 470	\$ 5 730	\$ -
ACCOUNTS RECEIVABLE	-	1 755	-
TOTAL ASSETS	\$ 88 470	\$ 7 485	\$ -
LIABILITIES - ACCOUNTS PAYABLE	18 729	813	-
FUND BALANCES	69 741	6 672	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 88 470	\$ 7 485	-

See notes to financial statements.

CITY OF STEPHENSON
COMPARATIVE BALANCE SHEETS - UTILITY FUNDS
JUNE 30, 2004 AND 2005

<u>ASSETS</u>	<u>Year Ended 2005</u>	<u>June 30, 2004</u>
PROPERTY, PLANT AND EQUIPMENT (Note 2):		
Property, plant and equipment	\$ 2 775 729	\$ 2 769 495
Less accumulated depreciation	<u>(728 083)</u>	<u>(649 522)</u>
Net property and equipment	<u>2 047 646</u>	<u>2 119 973</u>
RESTRICTED ASSETS:		
Bond and Interest Redemption Fund - Cash	42 780	37 380
Funded Equipment - Cash	<u>260 112</u>	<u>229 800</u>
Total restricted assets	<u>302 892</u>	<u>267 180</u>
CURRENT ASSETS:		
Cash on deposit	838 801	881 452
Accounts Receivable	<u>62 696</u>	<u>59 289</u>
TOTAL ASSETS	<u>\$ 3 252 035</u>	<u>\$ 3 327 894</u>
 <u>LIABILITIES, DEFERRED CREDITS AND RETAINED EARNINGS</u>		
RETAINED EARNINGS	\$ 2 331 015	\$ 2 411 217
LONG-TERM DEBT (Note 2):		
Revenue bonds payable - noncurrent portion	851 000	863 000
CURRENT LIABILITIES:		
Maturing bonds payable (Due January 1, 2005)	12 000	11 000
Accounts payable	<u>58 020</u>	<u>42 677</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 3 252 035</u>	<u>\$ 3 327 894</u>

CITY OF STEPHENSON
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES - UTILITY FUNDS
YEAR ENDED JUNE 30, 2004 AND 2005

	Year Ended 2005	June 30, 2004
OPERATING REVENUES:		
Charges for services:		
Electric and sales tax	\$ 427 081	\$ 420 816
Sewer	156 756	158 496
Water	100 051	101 056
Service charges and rents	970	2 441
Reimbursements and refunds	32 744	33 382
TOTAL OPERATING REVENUES	717 602	716 191
OPERATING EXPENDITURES:		
Electric	484 903	407 914
Sewer - collection	15 448	13 647
Sewer - operating	174 101	172 745
Water	84 201	60 984
TOTAL OPERATING EXPENDITURES	758 653	655 290
OPERATING INCOME (LOSS)	(41 051)	60 901
NONOPERATING INCOME (EXPENDITURES):		
Interest income	18 025	15 215
Interest on bonds	(39 083)	(40 768)
EXCESS OF REVENUES OVER EXPENDITURES	\$ 62 109	\$ 35 348
RETAINED EARNINGS, at beginning of period	2 411 217	2 375 869
RETAINED EARNINGS, at end of period	\$ 2 349 108	\$ 2 411 217

See notes to financial statements.

CITY OF STEPHENSON
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2005

	Major Street Fund	Local Street Fund	Liquor Fund
REVENUES:			
State grants	\$ 72 571	\$ 23 497	\$ -
Liquor law fees	-	-	587
Reimbursements & misc.	386	791	-
TOTAL REVENUES	72 957	24 288	587
EXPENDITURES:			
Routine maintenance:			
Salaries	4 150	2 033	-
Traffic services & nonmotorized	1 362	316	-
Maintenance	1 584	924	-
Equipment rent to General Fund	2 534	1 603	-
Insurance	571	283	-
Payroll taxes & fringe benefits	2 212	1 100	-
Utilities - to Electric Fund	5 704	2 043	-
Professional & contract services	128	876	-
Equipment rental	870	295	-
Capital outlay	6 572	3 286	-
Winter maintenance:			
Salaries	5 681	3 385	-
Repairs and maintenance	871	407	-
Insurance	501	253	-
Equipment rent to General Fund	7 084	4 712	-
Professional and contract	316	33	-
Equipment rental	-	-	-
Payroll taxes & fringe benefits	3 457	2 044	-
Capital outlay	-	-	-
Construction:			
Street const. & contract serv.	10 466	-	-
Professional services	14 022	33	-
Bridge construction	45 848	-	-
Law enforcement	-	-	587
TOTAL EXPENDITURES	113 933	23 626	587
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(40 976)	662	-
OTHER FINANCING SOURCES (USES):			
Incoming (outgoing) transfers -			
- Local Streets	-	-	-
- General Fund	64 295	-	-
EXCESS REVENUES (EXPENDITURES) AND OTHER SOURCES	23 319	662	-
FUND BALANCE, at beginning of period	46 422	6 010	-
FUND BALANCE, at end of period	\$ 69 741	\$ 6 672	\$ -

See notes to financial statements.

CITY OF STEPHENSON
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL FIDUCIARY FUND TYPES
JUNE 30, 2005

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<u>ASSETS</u>				
Cash	\$ 7 200	\$ 336 079	\$ 334 864	\$ 8 415
TOTAL ASSETS	\$ 7 200	\$ 336 079	\$ 334 864	\$ 8 415
<u>LIABILITIES</u>				
Due to other taxing units:				
State of Michigan				
withholding	\$ -	\$ 3 974	\$ 3 659	\$ 315
Customer deposits	7 200	6 200	5 300	8 100
City of Stephenson	-	56 420	56 420	-
Menominee County	-	91 276	91 276	-
Intermediate School				
District	-	23 566	23 566	-
Stephenson Area Schools	-	91 668	91 668	-
State of Michigan-S.E.T.	-	62 975	62 975	-
TOTAL LIABILITIES	\$ 7 200	\$ 336 079	\$ 334 864	\$ 8 415

CITY OF STEPHENSON
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
GENERAL FIXED ASSETS ACCOUNT GROUP
YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	(Deletions) Additions	Balance June 30, 2005
ASSETS:			
Office and D.P.W. Building	\$ 163 461	\$ -	\$ 163 461
Office equipment & fixtures	11 517	292	11 809
Equipment - streets	109 295	13 143	122 438
Recreation equipment	429 513	9 011	438 524
General equipment	62 956	7 817	70 773
Law enforcement	26 612	-	26 612
Sanitation equipment	5 300	-	5 300
 TOTAL ASSETS	 \$ 808 654	 \$ 30 263	 \$ 838 917

CITY OF STEPHENSON
SCHEDULE OF EXPENDITURES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
CITY COUNCIL:			
Salaries	\$ 1 110	\$ 1 200	\$ 90
Community promotion	6 528	6 000	(528)
Printing and publishing	539	685	146
Insurance	800	775	(25)
Miscellaneous and travel	3 150	1 000	(2 150)
Capital outlay and radio tower	8 084	8 000	(84)
Sidewalk repair and curb cuts	580	6 000	5 420
Total	20 791	23 660	2 869
MAYOR - salary & travel	1 172	1 500	328
ELECTIONS:			
Salaries	734	800	66
Printing, supplies & misc.	558	575	17
Total	1 292	1 375	83
GENERAL SERVICES:			
City Attorney - legal fees	595	2 500	1 905
Assessor - salary & expenses	6 652	6 550	(102)
Administrative and bookkeeper - salary & expenses	15 981	15 818	(163)
Board of Review	555	670	115
Treasurer - salary & expenses	5 609	5 510	(99)
Building inspector - salary expenses	2 978	4 010	1 032
Zoning and miscellaneous	490	900	410
Streets vehicle expense	8 620	10 825	2 205
Surveyor and appraisal fees	390	500	110
Total	41 870	47 283	5 413
FIRE DEPARTMENT:			
Education	-	300	300
Insurance	5 280	4 910	(370)
Utilities and phone	2 097	1 665	(432)
Maintenance and fuel	718	1 865	1 147
Capital outlay	4 250	4 250	-
Total	12 345	12 990	645

CITY OF STEPHENSON
SCHEDULE OF EXPENDITURES -
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
SANITATION:			
Salaries	\$ 2 343	\$ 2 764	\$ 421
Payroll tax & benefits	1 421	1 608	187
Repairs & contract labor	3 159	3 200	41
Pit rental	450	400	(50)
Miscellaneous & Capital outlay	287	235	(52)
Total	7 660	8 207	547
PARKS:			
Salaries	6 920	8 240	1 320
Payroll tax & fringe benefits	3 934	4 794	860
Insurance	1 261	1 206	(55)
Capital outlay	8 511	28 000	19 489
Maintenance, utilities & misc.	9 211	8 450	(761)
Total	29 837	50 690	20 853
LAW ENFORCEMENT			
Salaries and operating expenses	10 628	19 739	9 111
Capital outlay	-	2 500	2 500
Total	10 628	22 239	11 611
ADMINISTRATIVE:			
Office supplies and website	2 561	1 366	(1 195)
Repairs - municipal building	1 606	3 593	1 987
Audit fees	2 000	2 100	100
Telephone	912	920	8
Insurance	1 075	1 002	(73)
Dues	913	1 000	87
Capital outlay & equipment	650	1 200	550
Metro wages and benefits	4 199	-	(4 199)
Total	13 916	11 181	(2 735)
SERVICES TO OTHER FUNDS:			
Electric Fund	\$ 1 285	\$ 1 285	\$ -
Total	1 285	1 285	-
TOTAL EXPENDITURES	\$ 140 796	\$ 180 410	\$ 36 914
OUTGOING TRANSFERS:			
Transfer to Major Streets	\$ 64 295	\$ 64 295	\$ -

CITY OF STEPHENSON
SCHEDULE OF EXPENDITURES
UTILITY FUND
YEAR ENDED JUNE 30, 2005

ELECTRIC

Purchase of electricity	\$ 373 772
Depreciation expense	22 131
Salaries	30 448
Payroll taxes	2 329
Fringe benefits	11 693
Office supplies	2 625
Maintenance and supplies	18 156
Contract service	994
Transportation - gas	1 066
Truck maintenance	735
Insurance	2 729
Heat and telephone	1 629
Dues and fees	1 006
sales tax	14 356
Rentals	66
Training and miscellaneous	<u>1 168</u>
Total	<u>484 903</u>

SEWER - COLLECTION

Salaries	3 463
Payroll taxes	265
Fringe benefits	1 689
Worker's compensation & insurance	656
Maintenance and supplies	831
Depreciation expense	4 071
Contract services	3 954
Miscellaneous and training	<u>519</u>
Total	<u>15 448</u>

SEWER - OPERATING

Salary	172
Payroll taxes	13
Fringe benefits	91
Insurance	1 387
Contract services	128 721
Depreciation	36 636
Supplies	3 579
Repairs and maintenance	1 552
Licenses	<u>1 950</u>
Total	<u>174 101</u>

CITY OF STEPHENSON
SCHEDULE OF EXPENDITURES
UTILITY FUND
YEAR ENDED JUNE 30, 2005

WATER

Salaries	\$ 25 025
Payroll taxes	1 914
Fringe benefits	12 848
Maintenance, supplies and rents	9 846
Contract services	8 734
Transportation	386
Insurance	1 961
Utilities and telephone	3 741
Sample testing	2 996
Miscellaneous and training	1 027
Depreciation	<u>15 723</u>

Total	<u>84 201</u>
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TOTAL EXPENDITURES	<u>\$ 758 653</u>
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CITY OF STEPHENSON
ASSESSED VALUATION, TAX RATES AND TAX LEVIES
YEAR ENDED JUNE 30, 2005

	<u>Stephenson Area Public Schools</u>	<u>Menominee County</u>	<u>Intermediate Schools</u>
Taxable valuation	\$ 11 227 500	\$11 227 500	\$11 227 500
Millage rate	21.6000	8.9677	2.2983
Levy	\$ 101 166	\$ 100 680	\$ 25 802
Less - returned delinquent	<u>(11 887)</u>	<u>(9 737)</u>	<u>(2 495)</u>
Current tax collection	<u>\$ 89 279</u>	<u>\$ 90 943</u>	<u>\$ 23 307</u>

<u>City of Stephenson</u>	<u>State of Michigan S.E.T.</u>
\$ 11 227 500	\$ 11 227 500
5.0000	6.0000
\$ 56 138	\$ 67 365
<u>(5 430)</u>	<u>(4 390)</u>
<u>\$ 50 708</u>	<u>\$ 62 975</u>

RAYMOND L. PAYMENT
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July 28, 2005

PROFESSIONAL BUILDING
STEPHENSON, MICHIGAN 49887
PHONE: 906-753-4700

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
"GOVERNMENT AUDITING STANDARDS"

Honorable City Council
City of Stephenson
Stephenson, Michigan

I have audited the general purpose financial statements of the City of Stephenson as of and for the year ended June 30, 2005, and have issued my report thereon dated July 28, 2005. I conducted my audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Stephenson's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.


Internal Control Over Financial Reporting

In planning and performing my audit I considered the City of Stephenson's internal control over financial reporting in order to determine my audit procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matter in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce

July 28, 2005

to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ray L. Payment
Certified Public Accountant